



STATE OF DELAWARE

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MEMORANDUM

June 15, 2017

TO: The Chair and Members of the Commission

FROM: Joshua Bowman, Public Utility Analyst

SUBJECT: IN THE MATTER OF THE APPLICATION OF SUEZ WATER DELAWARE, INC. CONCERNING THE SEMI-ANNUAL ADJUSTMENT TO THE DISTRIBUTION SYSTEM IMPROVEMENT CHARGE ("DSIC") EFFECTIVE JULY 1, 2017, PURSUANT TO 26 DEL. C. § 314 (b) (5) (FILED MAY 25, 2017, AMENDED JUNE 12, 2017) – PSC DOCKET NO. 17-0370

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On July 9, 2001, the General Assembly and the Governor enacted 26 *Del. C.* § 314, which permits water utilities to impose a Distribution System Improvement Charge ("DSIC Rate") during the period between full rate case proceedings. The DSIC Rate recovers a return on the water utility's eligible capital improvements and its associated depreciation expenses. Eligible capital improvements include non-revenue producing plant projects which are in service, not already included in rate base, and are:

1. Replacement water plant projects, such as mains, services, meters, or hydrants that are worn out, deteriorated, or negatively impact water quality or reliability of service;
2. Extensions to eliminate dead ends which negatively impact water quality or reliability of service;
3. Relocations of facilities due to government actions such as highway relocations;
4. Water plant projects identified in the Governor's Task Force Report concerning adequate water supplies; or
5. New or additional plant facilities necessary to meet changes in federal or state water quality standards, rules, or regulations.

The DSIC Rate can be adjusted semi-annually for eligible plant placed in service during the 6-month period ending two month prior to the effective date of the applied-for DSIC Rate. DSIC Rate filings can be made semi-annually by December 1 or June 1 of every year, with an effective date of January 1 and July 1 respectively. A water utility calculates the DSIC Rate as a percentage of a customer's total water charges, then adds this charge to the customer's water utility bill. Between rate cases, the DSIC

revenues are capped at 7.5% of the amount billed to customers under the Commission-approved rates and charges. However, a water utility company's collective DSIC Rate revenues cannot exceed 5% of its total revenues in any 12-month period.

On May 25, 2017, SUEZ Water Delaware, Inc. ("SUEZ" or the "Company") filed an application ("Application") to set a new DSIC Rate at 1.53%. SUEZ's DSIC Rate was reset to 0.00% when the Company placed new interim base rates into effect on April 5, 2016, as part of the Company's base rate application approved by Order No. 8861 in PSC Docket No. 16-0163. On June 12, 2017, SUEZ filed revised schedules to the Application ("Revised Application"), as detailed below, adjusting the DSIC Rate in question to 1.07% with an effective date of July 1, 2017. The proposed DSIC Rate is based on net additional plant of \$2,290,138 and an associated semi-annual depreciation expense of \$16,375.

SUEZ originally sought approval of a DSIC Rate of 1.53%. It was discovered during Staff's review of the Application that the Company was seeking recovery of utility plant placed into service between July 1, 2016 and April 30, 2017. As required by the Commission's Regulations Implementing the Water Utility Distribution System Improvement Charge, 26 *Del. Admin. C.* §1009 – 2.3, for a July 1 effective date, the applicable recovery period is November 1 through April 30. After notification from Staff, SUEZ submitted its Revised Application which removed the plant additions that were placed into service outside of the applicable recovery period.

Accordingly, Staff recommends that the Commission permit this DSIC Rate to become effective July 1, 2017, but remain subject to Staff's review, audit, and annual reconciliation on a 12-month period ending December 31, 2017.